

Exhibit 2



0000091846

ORIGINAL

HIGHLAND WATER
RESOURCES CONSULTING Inc.

Water Resources Solutions

May 30th, 2006

Arizona Corporation Commission

DOCKETED

DEC 12 2008

DOCKETED BY

PSWID
Attn. Wes Surh
P.O. Box 134
Pine, AZ 85544RECEIVED
2008 DEC 12 P 2:33
AZ CORP COMMISSION
DOCKET CONTROL

RE: K2 Well Site Evaluation -- Groundwater Resources Potential

Dear Mr. Surh,

Upon the May 18th, 2006 approval and direction of the PSWID board, Highland Water Resources Consulting Inc. (HWRC) has completed its evaluation of the groundwater resources potential at the "K2" well site. The K2 location was considered in light of the local structural geology and both the deep regional and shallower perched groundwater systems. The evaluation focused on the structural geology in the vicinity of the site via a photo lineament analysis. Additionally, data presented in recent publicly available reports of the SHDWID, PSWID, USGS, and ADWR were considered as well. The ongoing Mogollon Study "MRWRMS" has produced a few draft documents of late and is currently wrapping up. However, preliminary data of the MRWRMS available to the public is also considered. The findings of the K2 investigation are presented in this five page letter report.

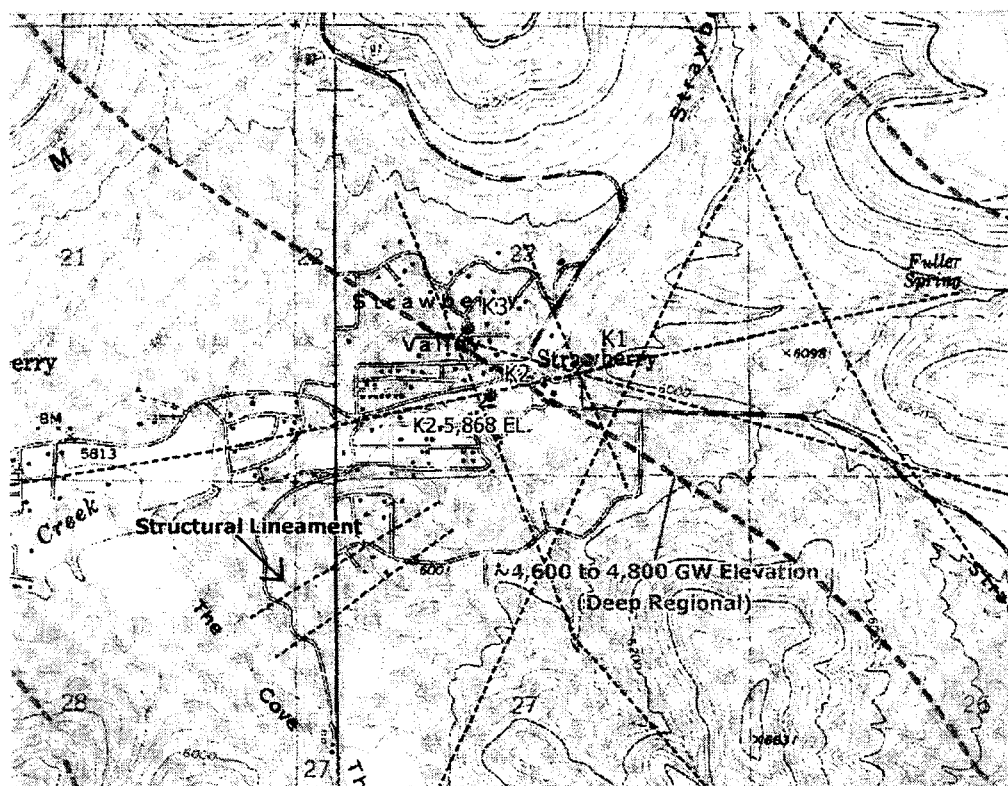
K2 WELL SITE LOCATION

The K2 well site is located in eastern Strawberry at an old water distribution site currently owned by Brooke Utilities. The site is located at approximately N34 °24.388 W111 °29.712 at a surface elevation of approximately 5,868ft. An existing old shallow production well at the site (55-616681) is reportedly a "dry hole".

K2 WELL SITE EVALUATION – GROUNDWATER RESOURCES POTENTIAL

Upon review of existing data and the completion of a lineament analysis of the site HWRC is confident that the location is quite adequate for the drilling of a deep test and/or production well. Figure I below, displays the results of the lineament analyses. Numerous structural features exist in the vicinity of the K2 site and at other sites to the north and northeast herein referred to as optional sites "K1" and "K3" for consistency. The existence of such structural features indicate a higher probability for the presence of secondary permeability (fractures) in the geology below. This situation would enhance the groundwater production potential within the deep regional aquifer.

FIGURE I – K2 Area Lineament Analysis



It is anticipated that the groundwater elevation of the deep regional system will be found between 4,600ft. and 4,800ft. (1,260ft. – 1,100ft. depth to water) in the vicinity. If a well is drilled in this area it is anticipated that the Redwall Fm. would be entirely to partially saturated. However, the primary producing geology may be within the Martin Fm. thru the Tapeats sandstone and into the Precambrian basement rocks at depths below approximately 1,460ft.. These strata should be saturated in this area; in this respect, drilling to a depth of approximately 2,000ft. ought to be sufficient to determine the level

of groundwater production encountered and penetrate a significant section of the deep regional aquifer. It should be noted that the deeper the well is installed the higher the groundwater elevation may rise due to the potentially semi-confined nature of the Precambrian system in this region. Also notable is that the Redwall (where productive) is producing an extremely fine red sediment and that the Tapeats and Martin may be producing sand. This situation can require more costly well construction via necessity for filter pack and well screen or surface filtration in combination with a down-hole sand separator. This issue also will add to the life cycle costs of the well and equipment. It is currently unclear if the sediment concern is a localized issue or a regional characteristic of the deep regional aquifer.

The upper 1,000ft. of strata encountered in the subject area is anticipated to consist of the Schnebly Hill and Supai formations and into the upper Naco Formation. Of consideration is the groundwater that will be encountered in this sequence as "fringe" C-Aquifer groundwater. Perched producing zones within this system occur within thin saturated sandy lime layers and fracture systems. These small systems may be interconnected w/o proper well construction resulting in vertical gradients in the well. In consequence, it is recommended that any wells installed in the Strawberry area deeper than 400ft. be constructed to utilize these aquifers discretely. HWRC believes that there is a lowermost unit of this upper system not currently utilized in the Strawberry area, as it would likely be encountered between 700ft. and 1,000ft.. The potential yield of this lower perched aquifer unit is unknown. Therefore, upon encountering this zone it is recommended that the yield of this unit be quantified and isotope and chemistry samples be collected prior to casing and grouting it off from the deep regional aquifer and perched units above. The potential exists that sufficient groundwater production could be encountered from this lower unit such that drilling need not necessarily continue. If this situation were to occur, proper well construction and provisions for the potential future deepening of the well could be made.

RELATIONSHIP TO FOSSIL SPRINGS and THE DEEP REGIONAL AQUIFER

Fossil Springs exist approximately five miles to the west-northwest of the K2 area. This fact should be considered in light of the reality of water rights and environmental concerns relating to any significant (200gpm plus) wells constructed in the deep regional aquifer in the Strawberry area. This too should be considered as part of the risk of investing public funds into such a project. HWRC currently believes that the subject K2 area may not be within that portion of the deep regional groundwater flow system supporting Fossil Springs. However, the exact location of the springs "capture" area is not clearly defined and the complexities of fractured groundwater flow occurring in the deep regional system may never be completely understood. Other than for monitoring purposes, the installation of deep regional groundwater wells much further to the west of the K2 area is not recommended. HWRC believes that sufficient data currently exists indicating that deep regional groundwater wells installed to the east, in Pine, would not produce groundwater that otherwise would have discharged at Fossil Springs. As such, deep regional groundwater wells installed in Pine are less likely to be the subject of

potential future litigation regarding water rights or environmental issues surrounding Fossil Springs. Another benefit to the drilling of deep regional groundwater wells in Pine rather than in Strawberry is the cost savings that would surely be observed due to shallower well construction requirements in the Pine area.

SUMMARY AND RECOMENDATIONS

HWRC recommends site K1 as the optimum drilling site in the K2 area. However, HWRC is confident that each of the sites in the K2 area provides adequate opportunity for deep and perched groundwater production. Additionally, opportunity for new groundwater production from a currently unutilized lower perched aquifer is a potential at each site. This affords an option in the completion of a potentially shallower well if sufficient production is encountered within or above the Naco Fm. (above approximately 1,000ft. in depth).

A caution should be taken when considering the drilling of deep regional aquifer wells in the Strawberry area as water rights and environmental concerns may arise if significant production capacity is committed. With this in mind, many opportunities currently exist in the Pine area for development of the deep regional aquifer at a significantly lower cost and risk than in Strawberry. This is due to the fact that wells in Pine need be installed to depths typically less than 1,500ft. to fully penetrate the deep regional system vs. greater than 2,000ft. in Strawberry. So too, deep wells in Pine are further from Fossil Springs and existing data clearly indicate such wells would not capture groundwater that would otherwise have discharged at the springs. The K2 area may not capture groundwater that would otherwise discharge at Fossil Springs, but this cannot currently be confirmed. Additionally, current events in the Pine area surrounding the development of the deep regional aquifer point to opportunities for partnerships with other water improvement districts and private entities that currently have wells in place and/or have tentative plans to drill.

In light of all the findings above, HWRC recommends that the K2 site be drilled once the following lower risk opportunities are explored where the water is needed:

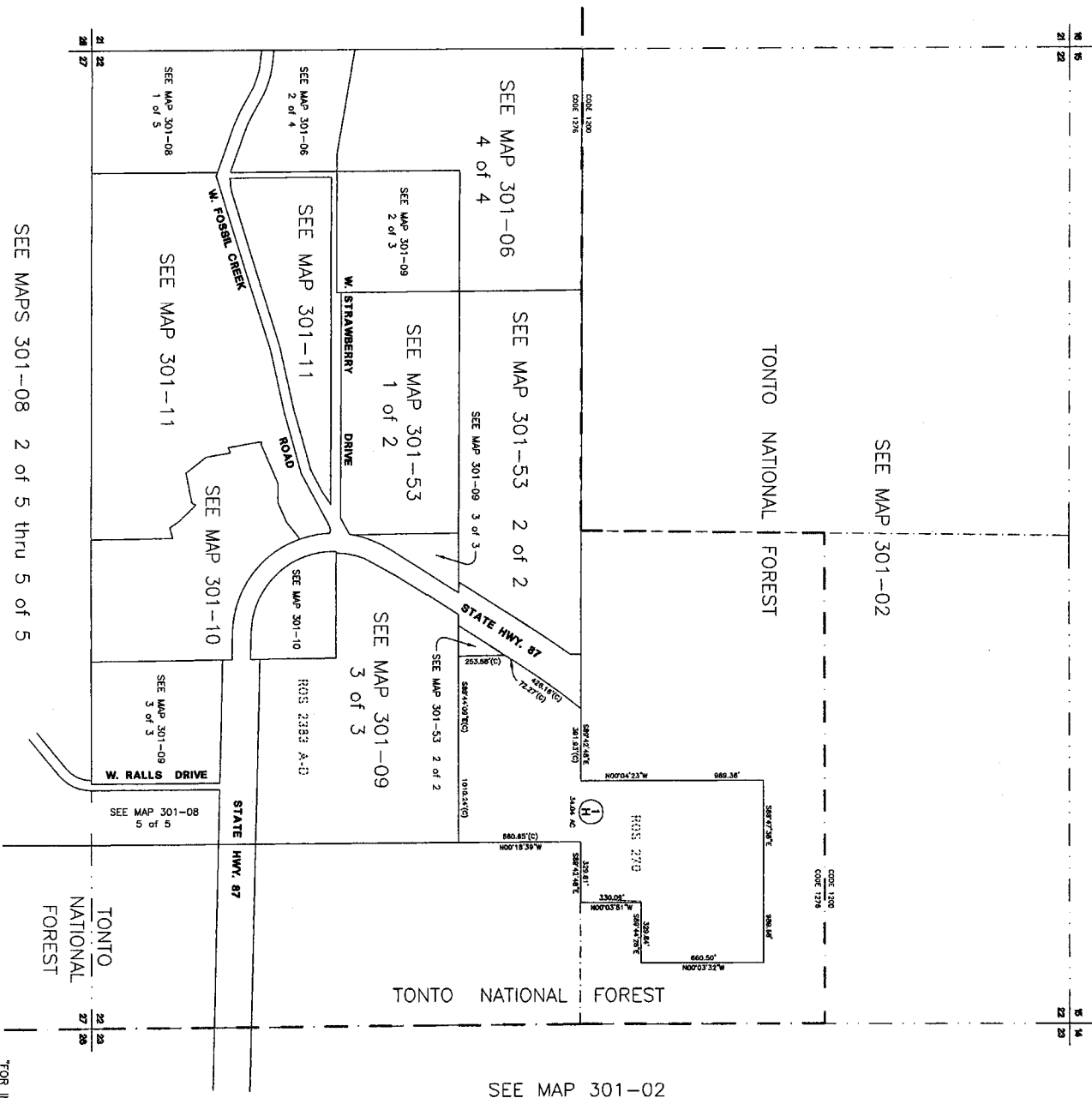
- Conduct a hydrogeological investigation to identify at least three optimum deep regional aquifer drilling sites in the Pine area. Such an investigation should include recommendations as to the most efficient and cost saving well drilling methods as well as site specific yet practical well design criteria. Ideally, at least one of the sites may be drilled and tested in 2006.
- Explore and define the opportunities for partnerships with other local Domestic Water Improvement Districts and/or private entities which may currently be in possession of deep regional groundwater supplies or that may be considering the drilling of a deep regional groundwater well in Pine.

- Explore and define the opportunities for partnerships with Federal and/or County governments.
- Explore and define the opportunities for any combination of the partnerships above.
- Prioritize the resulting opportunities.
- Investigate the legality of any such potential arrangements and define a legal path to successful delivery of the new long-term water source to the community of Pine in the most feasible manor possible.

HWRC does not wish to diminish the opportunities presented by the K2 area as it appears to be a good location. Rather, HWRC wishes to recommend consideration of the K2 site alongside other existing opportunities. The K2 area may best serve as an augmentation supply for the Strawberry area as apposed to a new source for Pine. In this way, the costs born by Pine's water customers for the distribution of the water from great depths and over the distance from Strawberry to Pine may be avoided. In addition, such a scenario would ensure that existing resources available to the Strawberry area are preserved. Ideally groundwater from the lowermost perched aquifer may be identified at the K2 site in sufficient quantities. If this zone were slated for future reserve development in Strawberry as apposed to the deeper system in Strawberry, potential water rights and environmental questions may be averted while providing for the utilization of the K2 area at some time in the near future.

Respectfully Submitted,

Michael Ploughe P.G.
HWRC



SEE MAPS 301-08 2 of 5 thru 5 of 5

SCALE = 1" = 400'
(C) = CALCULATED
(R) = RECORDED

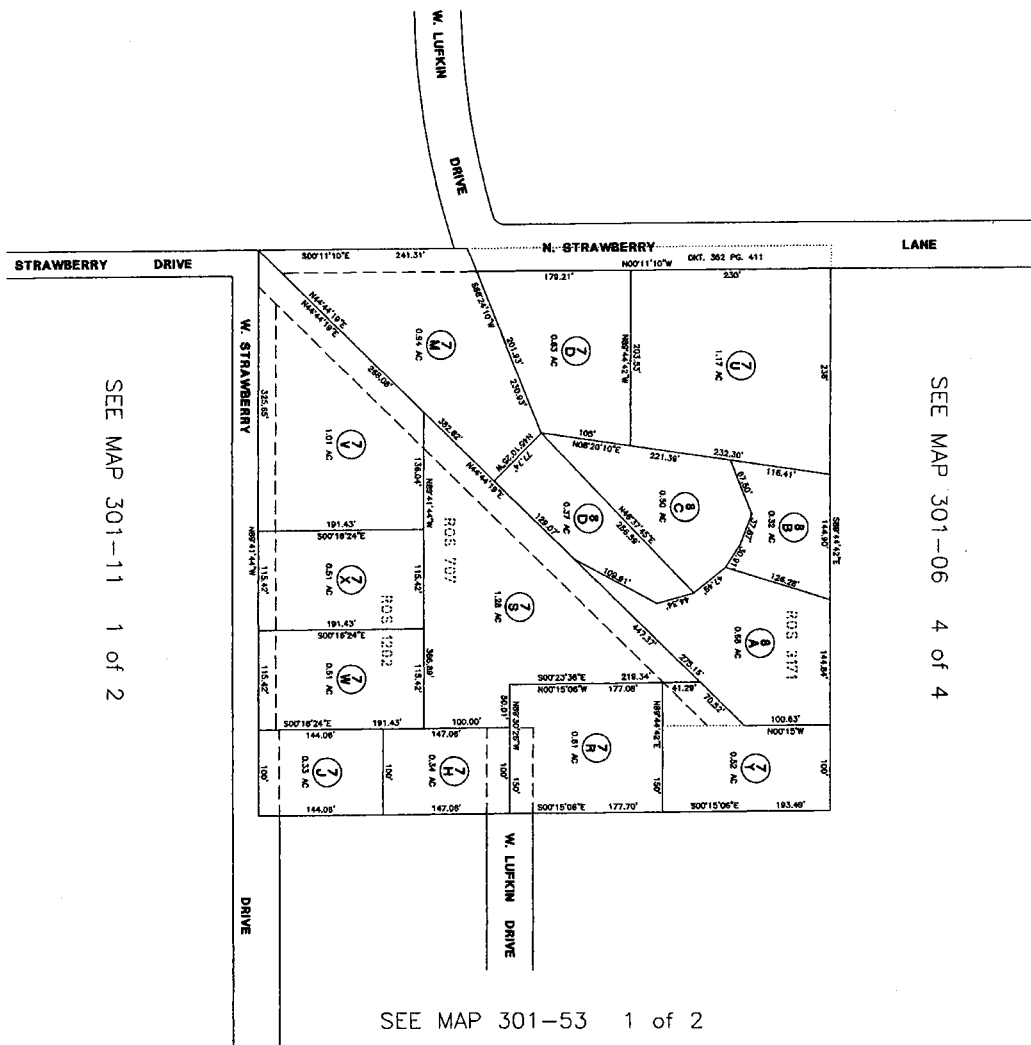
FOR INFORMATION ONLY, NO LIABILITY ASSUMED.

GILA COUNTY ASSESSOR

SE 1/4 NW 1/4 SW 1/4 SECTION 22
T12N R8E

301-09
2 of 3
CODE 12/6
UPDATED 7-03-06

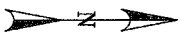
SEE MAP 301-06 4 of 4



SEE MAP 301-06 4 of 4

SEE MAP 301-11 1 of 2

SEE MAP 301-53 1 of 2



SCALE = 1" = 100'

(C) = CALCULATED

(R) = RECORDED

"FOR INFORMATION ONLY, NO LIABILITY ASSUMED."

GILA COUNTY ASSESSOR

PT SE 1/4 SECTION 22
T 12 N R 8 E

TONTO NATIONAL FOREST

SEE MAP 301-02

ROS 273

301-09
3 of 3
CODE 1276
UPDATED 6-03-05

SEE MAP 301-53 2 of 2

PORTION OF 301-09-0014
SEE MAP 301-09
1 of 3

SEE MAP 301-53 2 of 2

SEE MAP 301-53 2 of 2

SEE MAP 301-53 1 of 2

SEE MAP 301-11

SEE MAP 301-10

SEE MAP 301-11

SEE MAP 301-10

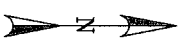
SEE MAP 301-08
5 of 5

SEE MAP 301-02

TONTO NATIONAL FOREST

TONTO NATIONAL FOREST

22 23
27 28



SCALE = 1" = 200'

(C) = CALCULATED

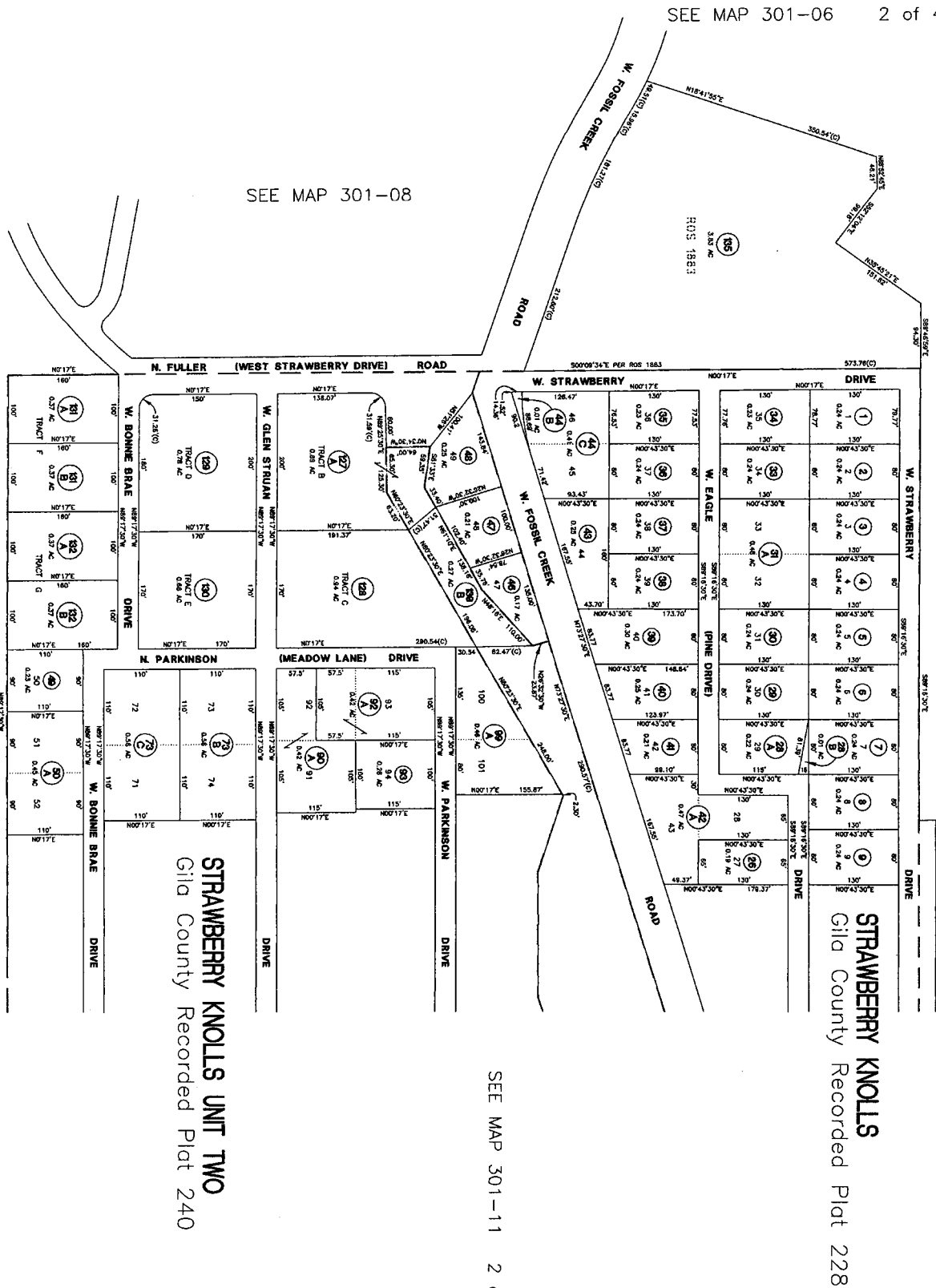
(R) = RECORDED

"FOR INFORMATION ONLY, NO LIABILITY ASSUMED."

GILDA COUNTY ASSESSOR

SEE MAPS 301-08 2 of 5 thru 5 of 5

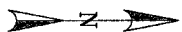
SEE MAP 301-09 2 of 3



SEE MAP 301-08

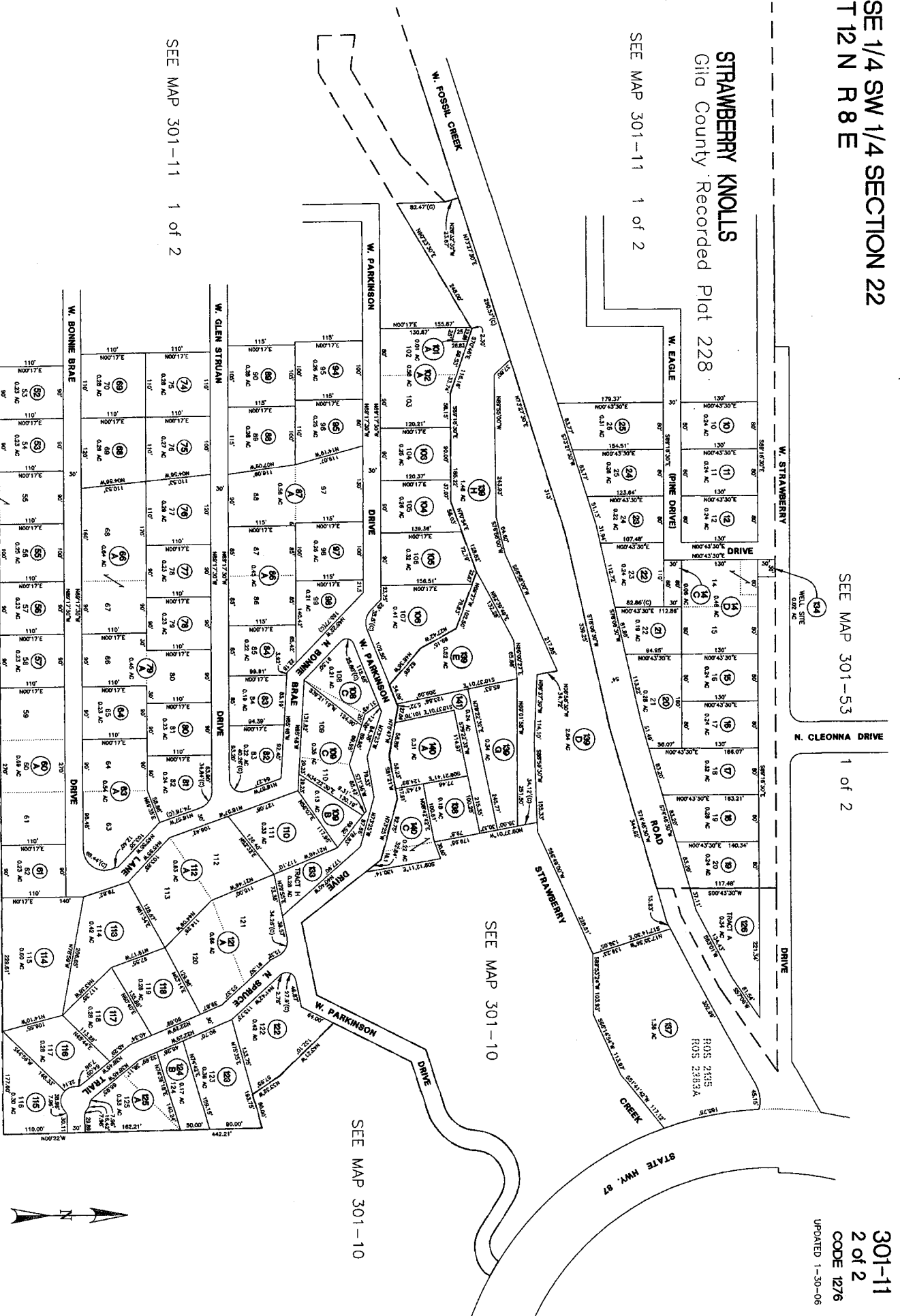
SEE MAP 301-11 2 of 2

SCALE = 1" = 100'
(C) = CALCULATED
(R) = RECORDED



STRAWBERRY KNOLLS
Gila County Recorded Plat 228

SEE MAP 301-11 1 of 2



STRAWBERRY KNOLLS UNIT TWO
Gila County Recorded Plat 240

SEE MAP 301-08

GILA COUNTY ASSESSOR

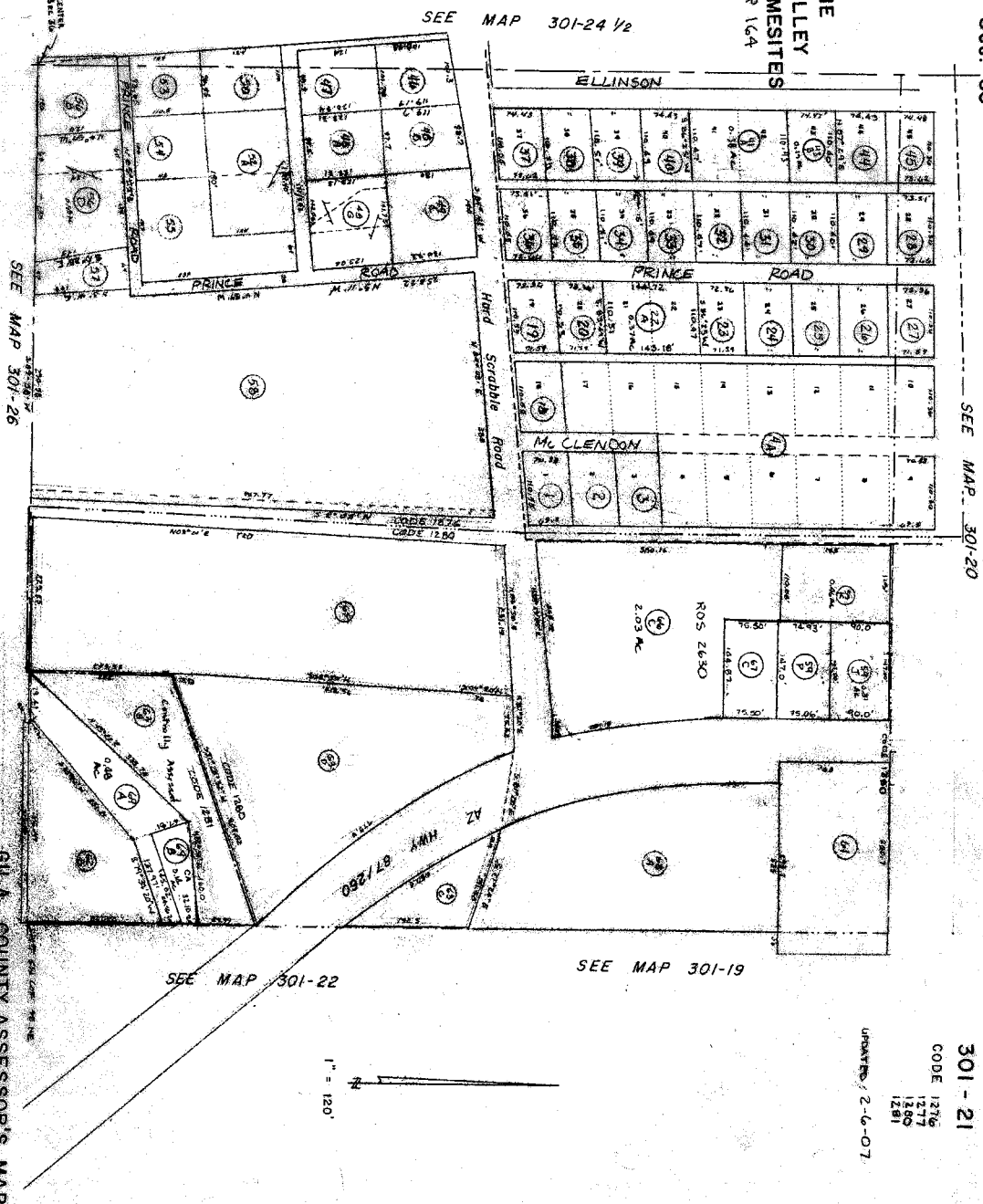
FOR INFORMATION ONLY, NO LIABILITY ASSUMED.

SCALE = 1" = 100'

(C) = CALCULATED
(R) = RECORDED

T 12 N, R 8 E
SW NE Sec. 36

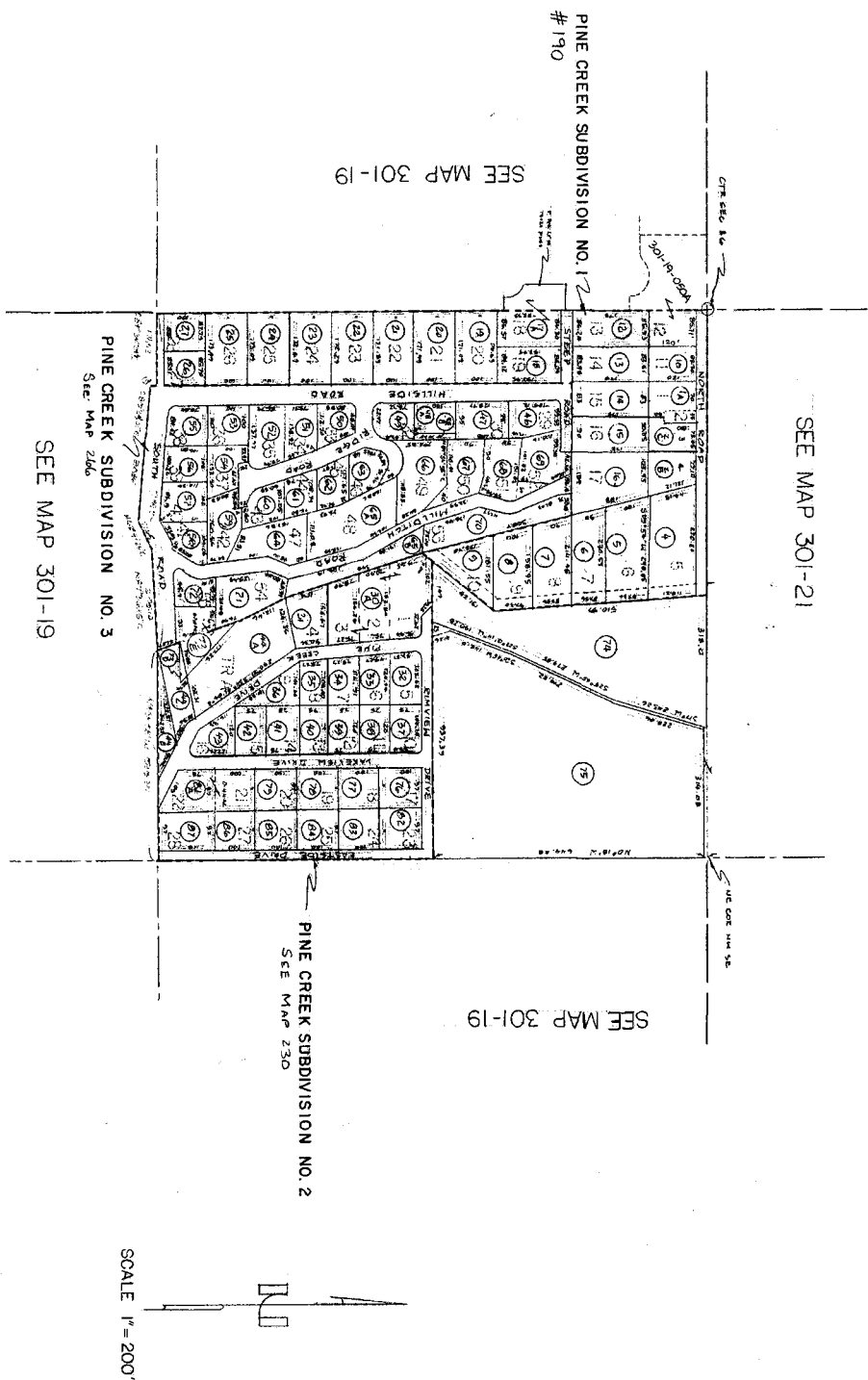
PINE
VALLEY
HOMESITES
MAP 164



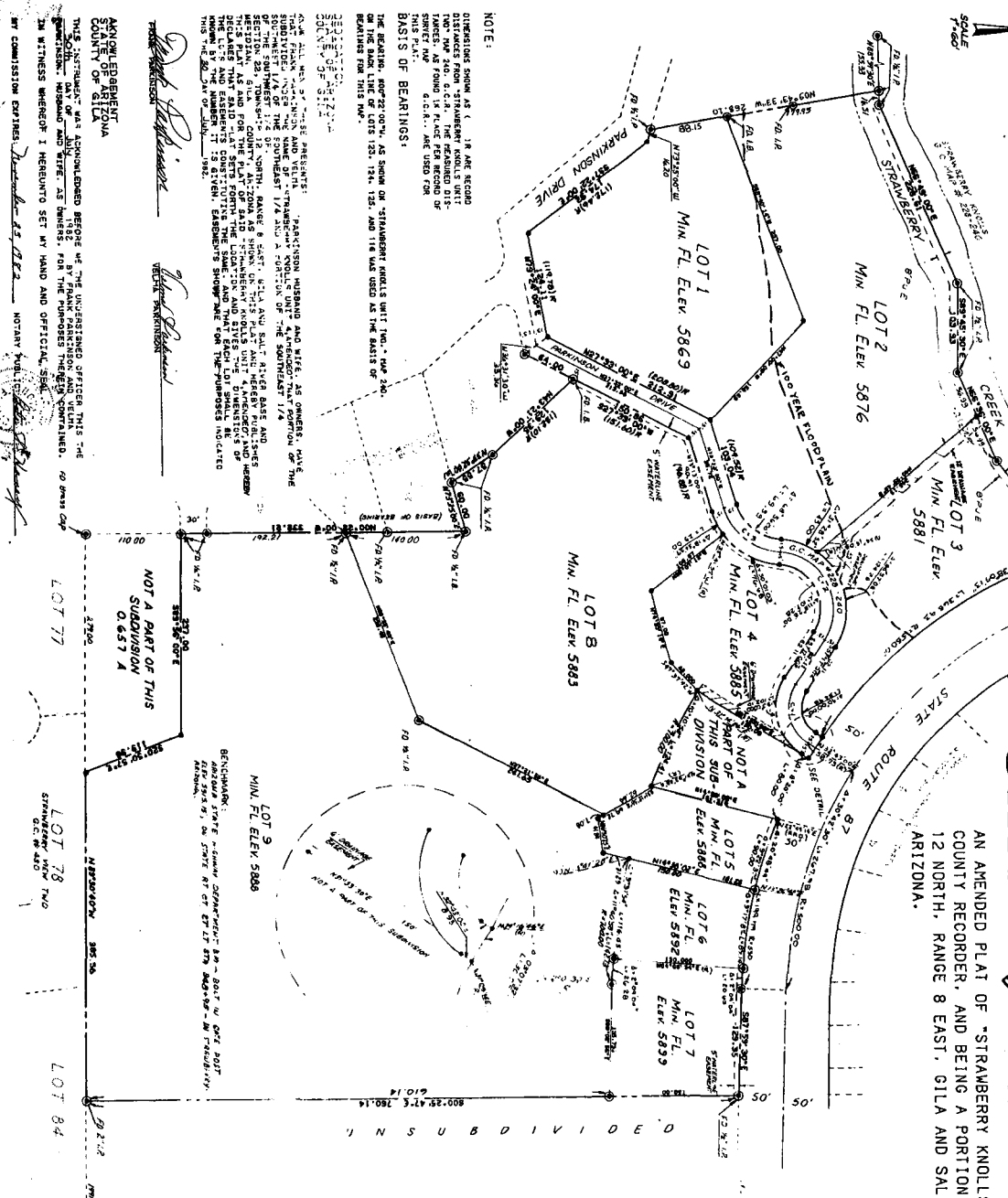
NW SE SEC 36 T2N R8E

301-26
CODE 1276

UPDATED 6-13-06



GILA COUNTY ASSESSOR'S MAP

[illegible]

STRAWBERRY KNOLLS UNIT 4, AMENDED

AN AMENDED PLAT OF "STRAWBERRY KNOLLS UNIT 4" AS RECORDED IN MAP 576, GILA COUNTY RECORDER, AND BEING A PORTION OF THE SOUTH HALF OF SECTION 22, TOWNSHIP 12 NORTH, RANGE 8 EAST, GILA AND SALT RIVER BASE AND MERIDIAN, GILA COUNTY, ARIZONA.

APPROVALS:

THIS PLAT OF "STRAWBERRY KNOLL'S UNIT 4, AMENDED" WAS APPROVED FOR RECORDING
THIS THE 2nd DAY OF August, 1982, IN GILA COUNTY BY:

H.H. Ballard James

BOARD OF SUPERVISORS ASSIST. CLERK

~~Charles R. Givens~~ ~~PLANNING AND ZONING COMMISSION~~ ~~8-2-82~~

Reed O Brown 8-2-23
COUNTY ENGINEER

CONSTRUCTION WITHIN EASEMENTS, EXCEPT BY PUBLIC AGENCIES AND UTILITY COMPANIES SHALL BE LIMITED TO UTILITIES, WOOD, WIRE, OR REMOVABLE-SECTION TYPE FENCING

DEDICATION
STATE OF ARIZONA

C. G. R. A. I.		D. A. I. A.	
#	IN. 1.	IN. 2.	IN. 3.
1	90.00 00	50.00	50.00
2	118.26 00	66.90	112.30
3	48.54 00	72.84	87.64
			50.00

AND ALL MEN AT THESE PRESENTS;
THAT THESE CLARK AND LOWMY CLARK, ASSISTANT AND WIFE, AS DIRECTS, HAVE SHOWN
AND VOUCHED THE NAME OF "STRANGLERS" ROLDS WITH A "C" BEHIND THE LETTER OF
THE FIRST NAME, AND THE LAST NAME OF "STRANGLERS" ROLDS WITH A "C" BEHIND THE
OF THE SOUTHWEST AND THE SOUTHWEST AND NORTH RANGE A EAST, OLA AND
CLARK, RAYNE BROS AND REGION, SILA COUNTY, ARIZONA AS SHOWN ON THIS PLAT AND
HENCE RAYNE BROS THIS PLAT AND FOR THE PLAT OF SAID STRANGLERS ROLDS WITH
A "C" BEHIND, AND HENCE DIRECTS THAT SAID PLAT BEI FOR THE LOCATION AND
GIVES THE SITUATIONS OF THE LOT AND SAID PLAT BEI FOR THE LOCATION AND
THE PURPOSES SHOULD, THAT THE NUMBER 12 IS GIVEN. DIRECTS ARE SHOWN FOR
THE

TERENCE CLARK LOMA CLARK

CLARK COUNTY OF ARIZONA
STATE OF ARIZONA
COUNTY OF GILA

THIS INSTRUMENT WAS ACKNOWLEDGED BEFORE ME. THE UNDERSIGNED OFFICER. THIS INSTRUMENT WAS
 30th DAY OF July, 1982 AT GREENE CLARK AND LOUANA GLASS.
 HUSBAND AND WIFE AS OWNERS. FOR THE PURPOSES HEREIN CONTAINED.

IN WITNESS WHEREOF I HEREBY SET

SURVEYOR'S CERTIFICATE:

ENGINEER IN THE STATE OF ARIZONA: THAT THIS MAP CONSISTING OF 3 SHEETS
CORRECTLY REPRESENTS A SURVEY MADE UNDER MY SUPERVISION DURING THE MONTH
JULY 1982; THAT THE SURVEY IS TRUE AND COMPLETE AS SHOWN; THAT
THEIR POSITIONS ARE CORRECT.

ACCURATE AS SHOWN; AND THAT SAID MONUMENTS ARE SUFFICIENT TO PROVE THE TO BE RETRACED.



7/50/82
DATE

ROBERT S. MITCHELL P.E. 18344

FOUND 1/2" FROM BASE TAGGED "L.S. 811754" ON ALL L
SMOOTHY SURFACES. EXCEPT AS NOTED.

FOUND MONTMENT (AS NOTED).

ROTATION: PRIMINARY.

Logix Engineering Corp.

WYOMING 65382
(402) 664-0572

10

STRAWBERRY KNOLLS UNIT A 252080 596

RECORD OF SURVEY/MINOR LAND DIVISION

PARCEL 301-11-138 LOCATED IN THE SE 1/4 OF THE SW 1/4 OF SECTION 22,
T 12 N, R 8 E, G&SRM, GILA COUNTY, ARIZONA



STATE OF ARIZONA, COUNTY OF GILA
I HEREBY CERTIFY THAT THE WITHIN INSTRUMENT WAS FILED
AND RECORDED IN THE GILA COUNTY RECORDS IN THE PRESENCE OF
DATE 11/23/07 BY 3463
OFFICIAL RECORDS OF GILA COUNTY, AZ
WITNESS MY HAND AND SEAL OF THE DAY AND YEAR
FIRST WRITTEN AND FIRST WRITTEN SEAL OF THE DAY AND YEAR
LINDA HUGHES, CLERK, GILA COUNTY RECORDER

LEGEND

- FOUND MONUMENT AS NOTED
- SET 1/2" IP 12314
- NEW BOUNDARY LINE
- EXISTING BOUNDARY LINE
- EASEMENT LINE
- EXISTING FENCE LINE
- 301-11-138 A.P.N.

FOR:
BROOK UTILITIES, INC.
P.O. BOX 82218
BAKERSFIELD, CA 93380

BASIS OF BEARING

WEST LINE OF PARCEL 138A N 09°21'41" W (SHOWN)

OWNERS CERTIFICATION

I HEREBY CERTIFY THAT ALL STRUCTURES ARE
CORRECTLY LOCATED AND ADHERE TO THE SETBACKS
REQUIRED BY GILA COUNTY ORDINANCE.
Signature: [Signature] Date: 11-23-07

CERTIFICATION

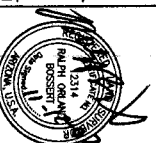
THIS IS TO CERTIFY THAT THIS SURVEY WAS
PERFORMED UNDER MY SUPERVISION DURING THE
MONTH OF OCTOBER, 2007 AND THAT ALL MONUMENTS
ARE CORRECTLY IDENTIFIED.

APPROVED TO RECORD

THIS MINOR LAND DIVISION MEETS THE
REQUIREMENTS OF THE GILA COUNTY MINOR
LAND DIVISION ORDINANCE.

PERMIT NO. 11007-44 DATE 11-23-07

GILA COUNTY COMMUNITY DEVELOPMENT DIVISION



TETRA TECH, INC.
431 S. Baseline Highway
Tempe, Arizona 85283
TEL: (480) 771-4636 FAX: (480) 771-4657

DATE	NOB	LINE	APR	SCALE	HORIZ.	VERT.	SHEET	TOTAL
11/23/07	11/23/07	11/23/07	11/23/07	1" = 10'	10'	11	11	11

3463

3463

RS-42-SITE.DWG

